



A subsidiary of Pinnacle West Capital Corporation

ORIGINAL



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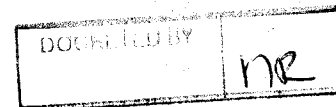
February 15, 2008

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

FEB 15 2008

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007



RE: DEMAND SIDE MANAGEMENT ADJUSTOR CHARGE PURSUANT TO DECISION NO.
67744 DOCKET NO. E-01345A-03-0437 & E-01345A-05-0526

Dear Sir or Madame:

Pursuant to Decision No. 67744, Arizona Public Service Company ("APS") is to file for any changes in the Demand Side Management ("DSM") adjustor rate by March 1st of each year. The Demand Side Management Adjustor Charge ("DSMAC") is for recovery of Commission approved DSM expenditures in excess of the \$10 million base rate DSM allowance. Attached are Schedules 1 through 5 with the calculations for DSMAC.

The deferred balance to be recovered through the adjustor for expenditures through December 31, 2007 is \$3.25 million. The adjustor currently in effect is zero. The DSM Adjustment Charge per kWh would have to be set at \$0.000112 for residential and commercial customers that are not billed on a demand rate, and the Adjustment Charge per kW would be set at \$0.049649 for commercial customers that are billed on a demand rate. Attached Schedule 4 shows the calculation of these charges.

Under the filed plan of administration, the DSMAC would become effective beginning with the first March 2008 billing cycle. However, since the balance is fairly small at this time, the Company proposes that the DSMAC remain at zero and that the balance continue to be deferred with interest until the next annual reset in the adjustor rate on March 1, 2009. Therefore, a revised Adjustment Rate Schedule DSMAC-1 is not attached.

Additionally, the company would propose that the customer balance in the Net Gains on Utility Property deferred pursuant to Decision No. 69670 be credited to the above DSMAC balance. Decision No. 69670, dated June 28, 2007, requires that no less often than once each two years on April 30 of even numbered years, the entire amount in the account, if \$100,000 or greater, either be refunded to customers or used by APS to fund programs that will directly benefit customers as directed and approved by the Commission. Rather than refunding a small amount, which is currently estimated to be \$274,000, the Company believes that applying that credit to the deferred DSM balance to reduce both the impact of the DMAC in 2009 and any associated interest on the DSMAC balance charges is reasonable.

Decision No. 67744 does not indicate that modification on the DSMAC requires Commission approval; however, Decision No. 69670 would require Commission approval for the use of the customer balance for Nets Gains on Utility Property for this proposed use for customers. The Company will be filing the quarterly compliance report required by Decision No. 69670 by February 29th that will have the actual customer balance as of December 31, 2007 that would be credited to the DSM balance, if approved by the Commission.

Please call if you should have any questions or wish to discuss this further.

Sincerely,



Barbara A. Klemstine

Attachment

BAK/jjb

Cc: Ernest Johnson
Brian Bozzo
Terri Ford
Barbara Keene

ARIZONA PUBLIC SERVICE COMPANY

DSMAC Schedule 1

DSM Adjustment

Recoverable Costs

Charge Period January 1, 2007 through December 31, 2007

Line No.	2007
1 Recoverable Program and Incentive Costs above the Base Rate allowance	\$ 3,237,361

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 2
DSM Adjustment

Actual DSM Adjustment Charge Revenues
Charge Period January 1, 2007 through December 31, 2007

Line No.	Months	Actual Retail Energy Sales (kWh)	Effective ¹ DSM Adj. Energy Charge \$ per kWh	Revenue From DSM Adj. Energy Charge	Actual Retail G.S. Monthly Demand (kW)	Effective ¹ DSM Adj. Monthly Demand Charge \$ per kW	Revenue From DSM Adj. Demand Charge	Revenue From DSM Adj. Charges
1	Jan - Dec 2007	29,171,321,000	\$ -	\$ -	34,727,000	\$ -	\$ -	\$ -
2	Total - 2007	29,171,321,000		\$ -	34,727,000		\$ -	\$ -

¹ DSMAC charges for 2007 were set at zero.

ARIZONA PUBLIC SERVICE COMPANY

DSMAC Schedule 3

DSM Adjustment

Balancing Account Computation

Charge Period January 1, 2007 through December 31, 2007

Line No.		2007
1	Recoverable Program and Incentive Costs above the Base Rate allowance (Sch. 1)	\$ 3,237,361
2	Less DSM Revenue recovered from effective DSMAC (Sch. 2)	\$ -
3	Un-Recovered DSM Costs (Line 1 - Line 2)	\$ 3,237,361
4	Interest @ 3.17% (Sum of Jan. and Feb. Interest from Sch. 5) ¹	\$ 17,127
5	Total DSMAC Recoverable Costs (Forward to Sch. 4)	\$ 3,254,488

¹ Interest included pursuant to Decision No. 69663. The applicable interest rate is the one-year Nominal Treasury Constant Maturities rate from the Federal Reserve H-15 as of Jan. 2, 2008.

ARIZONA PUBLIC SERVICE COMPANY
DSMAC Schedule 4
DSM Adjustment
Calculation of the DSM Adjustment Charge
Charge Period January 1, 2007 through December 31, 2007

Line No.		2007
1	Total DSMAC Recoverable Costs (Sch. 3, Line 5)	<u>\$3,254,488</u>
2	Retail kWh Sales in Period (Sch. 2)	29,171,321,000
3	DSM Adjustment Charge per kWh to be Applied in Following Year (Line 1/Line 2)	<u>\$ 0.000112</u>
4	kWh Sales for General Service Customers with Demand-Based Bills	15,394,217,000
5	kW Billing Determinants for General Service Customers with Demand-Based Bills	34,727,000
6	Revenue for G.S. Customers with Demand-Based Bills (Line 3*Line 4)	\$1,724,152
7	Monthly DSM Adj. Charge per kW to be Applied in Following Year (Line 6/Line 5)	<u>\$ 0.049649</u>

2008 Monthly Balancing Account Computation

Charge Period January 1, 2008 through December 31, 2008[illegible]